

# NCUA News

## Chairman D'Amours Urges Congress to Act

"I urge the quick enactment of H.R. 1151 to allow consumers the freedom to choose credit union service ... to alleviate uncertainty and ensure a continued safe and sound credit union system. ... Most of all to restore NCUA's policies allowing access to credit union services for employees of small businesses and residents of low-income neighborhoods," Chairman Norman E. D'Amours told the House Banking Committee Members during his testimony March 11.

"Even if the Supreme Court ruling does not result in an order to divest," he said, "the ruling limits access to credit unions for employees of small businesses and low-income people. Over 50 percent of the private sector workforce are employed by small businesses and 99.7 percent of these businesses employ fewer than 500 people. Without the multiple group policy, more than half the workers in the country, many people of moderate means, would lack the ability to access federal credit union service.

"Over time, many credit unions will suffer unsustainable losses and millions of credit union members will lose needed services. The resulting liquidation or merger of these credit unions would significantly affect the federal insurance fund. The Court decision has the potential to affect the safety and soundness of the entire federal credit union system," he said.

The Chairman told Committee members that since 1982, safety and soundness has increased because credit unions were able to diversify their fields of mem-

bership and adapt to profound changes in the American landscape. Diversification allowed credit unions to withstand downturns in economic conditions in specific industries and groups.

"In keeping with the *Federal Credit Union Act's* mandate, this legislation would facilitate the availability of fairly-priced financial services to individuals who otherwise may not have access to credit union services. This legislation would defend the quintessential American principle of freedom of choice."

"Working together, Congress and NCUA have assured safe and sound credit union operations. Today, we have another such opportunity and the millions of credit union members are depending on us," he concluded.



Visiting \$161 million Georgia FCU, Atlanta, Ga., in February, Chairman D'Amours was introduced to Vernon Carne, the credit union's founding member. **Left to right:** Mr. Carne; Mack Ivey, CEO of Georgia FCU; and D'Amours. The 40-year-old educational credit union serves eight county school systems, 218 SEGs, two low-income communities, and actively mentors two low-income credit unions.

March 1998, Number 2

### HIGHLIGHTS

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## H.R. 1151 Signatures Climb, Hearings Held

H.R. 1151 had 186 signatures March 11 when the House Banking Committee heard from Congressmen, regulators, credit unions and banks at a day-long hearing on credit union field of membership policy.

The Senate Banking Committee will hold hearings March 26 and April 2 on field of membership.

Since the February 25 Supreme Court ruling, over 50 legislators have added their names to H.R. 1151. The day preceding the Court's decision, Speaker of the House Newt Gingrich announced he would cosponsor the House bill.

## Chairman D'Amours Responds to Supreme Court Ruling

"NCUA is disappointed that this 5 to 4 Court ruling invalidates the agency's long-standing multiple group policy. We support the expedited consideration by the Congress of this matter to change the language of the Federal Credit Union Act to expressly permit multiple group credit unions. Prompt congressional action is vital for the future of cooperative, non profit financial services in our nation."

## News Briefs

- **Continue Service to Existing Groups** – NCUA filed a motion in early March asking the Federal Appeals Court to continue the partial stay it issued in December 1996 pending its consideration of NCUA's appeal of issues relating to the scope of relief resulting from the Supreme Court's decision. The partial stay allows federal credit unions to serve members from select groups added prior to the July 30, 1996, Court of Appeals decision.
- **Y2K Legislation Awaits Signature** – The House and Senate have passed legislation giving NCUA parity with fellow financial regulators in examination authority over service providers and vendors on Y2K issues. Chairman Norman E. D'Amours testified on the House bill, H.R. 3116, shortly before the Committee's unanimous vote of approval. The legislation contains a sunset provision that ends the authority December 31, 2001. The legislation has been sent to the White House for signature.
- **Status Conference Rescheduled** — U.S. District Court Judge Thomas P. Jackson has rescheduled the status conference to

April 15 in the AT&T case (*First National Bank v. NCUA*) and two other cases now before him involving NCUA's multiple group policy – *Guaranty Bank v. NCUA* and *Texas Bankers Association v. NCUA*.

- **Point Mugu Court Challenge** — The Point Mugu FCU court case (*California Bankers Association v. NCUA*), which challenges NCUA's "Once a Member,

Always a Member" policy, was automatically assigned to Judge Thomas Penfield Jackson after the banks designated it a "related case" to AT&T. Judge Jackson agreed with NCUA's objection to the "related case" designation and the case was randomly reassigned to Senior Judge John Garrett Pratt after two other judges recused themselves.

## Credit Union Growth is Solid

Federally insured credit unions posted solid growth in 1997. Assets, shares, and loans grew along with capital as NCUA issued 10 new federal credit union charters and failures dropped to a record low eight involuntary liquidations and eight assisted mergers.

Looking at the preliminary numbers and ratios for federally insured credit unions:

- Assets increased 7.4 percent, up from \$326.9 to \$351.2 billion;
- Loans increased 8.6 percent, up from \$213.8 to \$232.2 billion;
- Shares increased 7.1 percent, up from \$286.7 to \$307.2 billion;
- Investments increased 4.4 percent, up from \$98.3 to \$102.6 billion;
- Capital ratio increased to 11.7 percent;
- Delinquency ratio remained 1 percent;
- Loan to share ratio increased to 75.6 percent; and
- Membership grew from 69.2 to 71.4 million.

The one negative to financial results is the number of members in federal credit unions declined for the first time since 1980. (See accompanying box)

### Lending Gains

Looking more closely at the major balance sheet categories, in lending, significant increases in used automobile loans is narrowing the gap between total dollars loaned for new and used vehicles at federally insured credit unions. With growth of 17.5 percent last year, used auto loans now total \$43.5 billion while new auto loans grew just 1.1 percent, up from \$48.8 to \$49.4 billion. Just two years ago, new auto loans outpaced used auto loans by \$16 billion.

First mortgage loans, the largest category of credit union lending, gained 13.7 percent,

moving from \$45.6 to \$51.9 billion. Other types of real estate lending grew 14.2 percent, increasing from \$25.1 to \$28.6 billion.

Credit cards continue to be an aggressive loan segment, increasing 9.6 percent from \$17.4 to \$19 billion last year.

### Deposit and Investment Growth

Share certificates and money market shares lead savings growth, increasing 14.5 and 15.8 percent respectively. Share certificates increased from \$66.4 to \$76.1 billion and money market shares increased from \$28.7 to \$33.3 billion. Share drafts gained 12 percent, up from \$32 to \$35.9 billion, while regular shares increased 1.2 percent, moving from \$121.9 to \$123.4 billion.

Investments in corporate credit unions grew by 14.3 percent, increasing from \$22.8 to \$26 billion. Total equity among federally insured credit unions gained 10.5 percent, increasing from \$35.2 to \$38.9 billion.

### FCU Members Decline

Federal credit union members declined in 1997, marking the third decline since the Federal Credit Union Act was signed in 1934, because many credit unions are switching to state charters and charter expansions are nearly stagnant.

The last membership decrease occurred in 1980 when the number of federal credit unions was dropping precipitously – over 1,000 federal credit unions closed their doors between 1979 and 1982, nearly 500 in one year. Most closures were tied to pockets of economic weakness, not the story in today's robust economy.

## NCUA News

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures credit unions.

**Norman D'Amours, Chairman**  
**Yolanda T. Wheat, Board Member**  
**Dennis Dollar, Board Member**

Information about NCUA and its services may be secured by writing to the Office of Public and Congressional Affairs, or by calling 703-518-6300. News of what is happening at NCUA is available by calling 800-755-1030 or 703-518-6339.

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## BOARD ACTIONS

# Year 2000 Contingency Plan Adopted

The NCUA Board approved an internal Instruction at its January 22 meeting that outlines NCUA's Year 2000 (Y2K) Contingency Plan and stresses that NCUA staff and credit unions should work cooperatively to achieve Y2K compliance.

"The primary goal of NCUA is to ensure that every credit union is Year 2000 compliant," E&I Director David Marquis explained in presenting the Instruction to the Board. To ensure that credit unions and examiners have the same resource planning tool, the Instruction was issued as *Letter to Federal Credit Union 98 - CU-4* and placed on the Y2K Section of the NCUA Web site at [www.ncua.gov](http://www.ncua.gov).

This flexible plan defines each phase of the Y2K conversion process and sets milestone dates for complying with its various phases. It also identifies what administrative remedies NCUA can take if credit unions do not demonstrate adequate progress toward Y2K compliance.

### Specifically, NCUA's Contingency Plan:

- Augments existing policies for administrative actions by defining and setting milestone dates for each phase of Y2K compliance;
- Considers credit union vendor conversion capacity related to credit unions' Y2K contingency plans;
- Outlines emergency liquidity options available for credit unions expecting share runs; and
- Explains NCUA's emergency liquidity options in the event of a systemic liquidity crisis.

The plan is flexible enough so NCUA may take action in a timely

manner depending upon the complexity and/or severity of each case. For instance, the regional director may waive any of the described actions (with E&I concurrence) if support justifies. Conversely the regional director may accelerate an action if necessary to ensure that milestone dates are met and that service to members is not interrupted.

The *Instruction* is broken down into the following segments:

*Administrative Actions* — Sets specific milestone dates for credit unions to achieve Y2K compliance and outlines applicable administrative actions for noncompliance.

*Assessment Phase* — Describes the initial evaluation phase, which should have been completed by Sept. 30, 1997.

*Renovation Phase* — Documents a course of action to have critical systems renovated and tested by Dec. 31, 1998.

*Validation/Testing Phase* — Explains that credit unions must begin initial validation and testing by July 31, 1998, or sooner.

*Implementation Phase* — Mission critical systems must be up and running on or before Sept. 30, 1999.

Effective immediately, the plan covers all federally insured credit unions, including corporates.

### Chartering Policy Change Adopted

To reduce the documentation burden for charter conversions, in January the NCUA Board adopted an amendment (IRPS 98-1) eliminating the requirement that a credit union converting a community charter must provide evidence of community support. Such evidence is unnecessary to determine

the economic viability of the credit union.

### CUSO Rule Finalized

After a thorough review of the Credit Union Service Organization regulation and careful consideration of the comments received, at its February 25 meeting the NCUA Board finalized a CUSO rule similar to the current rule.

Technical amendments adopted under the final rule clarify NCUA's authority to review CUSO books, records and internal controls, add corporate separateness guidelines and additional permissible services, change the legal opinion requirements, maintain safety and soundness criteria, and ensure the continuity and growth of services to FCUs and their members conducted through CUSOs.

### Amended Disclosure Provisions Add Clarity

In February, the NCUA Board also issued final amendments to Part 708a adding clear language to the cover page of the disclosure statements that members receive when a federally insured credit union seeks to merge or convert to a non credit union institution. Final rule amendments to Part 708b add plain-English language so members clearly understand that if their credit union terminates insurance or converts to nonfederal insurance, their account is no longer backed by the full faith and credit union of the US government.

### Where CUs Stand with Y2K Compliance

Based on the 10,690 E-forms NCUA has received: 2,724 credit unions (25%) report they are Y2K compliant 475 report they are not affected by Y2K (they post by hand) 39, all corporates report being partially compliant, assessment phase completed.

## CREDIT UNION DEVELOPMENT

# Mentoring Assistance Critical for Small Credit Unions

There is a continued need for access to low-cost financial services in many rural and urban communities across the country.

With one exception, the 22 new federal charters NCUA granted during 1996 and 1997 are community or association based. A new occupation-based charter application has become rare. This may change with the recent U.S. Supreme Court decision banning additions of select groups to existing credit unions.

| Year End 1997            |       | Year End 1996            |       |
|--------------------------|-------|--------------------------|-------|
| Federal CUs              | 6,981 | Federal CUs              | 7,152 |
| Federally Insured SCUs   | 4,257 | Federally Insured SCUs   | 4,240 |
| New FCU Charters Granted | 10    | New FCU Charters Granted | 12    |
| Total FISCO Failures     | 16    | Total FISCO Failures     | 19    |

It is not unusual for a new small business to experience growing pains during the first five years of operation. Likewise, start-up credit unions and low-income credit unions (LICUs) are faced with similar obstacles.

Perhaps the greatest challenge is not having a company sponsor with deep pockets to supplement any initial lack of assets. Many of today's new credit unions rely on a non-profit organization or church sponsor this is often limited in the monetary support it can provide.

This creates a special opportunity for the credit union community to increase its support. The proud philosophy of cooperation among credit unions will no doubt meet the challenge. Small

credit unions can benefit tremendously from a big brother mentoring relationship with existing credit unions.

## Non Member Deposits

For example, \$10 billion-asset Navy Federal Credit Union, Vienna, Va., recently placed \$1 million in non member deposits into 10 low-income credit unions (\$100,000 each) at 2 percent interest. Other credit unions are also active in placing nonmember deposits in low-income credit unions and providing other assistance. But many LICUs have expressed concern that some non member deposits that credit unions offer are at such high interest rates that they provide no long-term benefit.

At mid-year 1997, 133 federally insured LICUs had \$78.6 million in nonmember deposits. In contrast, 1,910 federally insured credit unions had \$532 million deposited in non low-income credit unions. Clearly, there is room for increased deposits in low-income credit unions.

## Management & Director Training Key

The greatest funding needs for start-up and small credit unions are salary assistance to attract experienced managers, employee and director training, and the purchase of computer and office equipment to ensure accurate record keeping.

NCUA is able to provide limited monetary and technical assistance only to LICUs through its Community Development Revolving Loan Fund. Technical assistance grants enable LICUs to supplement manager salaries, pay for professional audits, buy computer equipment, and retain help to draft marketing plans. But small and low-income credit unions need assistance from other sources too.

NCUA has identified an economic development specialist in each regional office who is available to provide small credit unions (assets of \$5 million and below) with a variety of mentoring services. But because much more time and resources are needed

## New Federal Credit Union Charters

### 1997 10 New Charters

|        |                                   |                     |
|--------|-----------------------------------|---------------------|
| #24592 | Avondale Community*               | Cincinnati, OH      |
| #24593 | North Dade Community Development* | Miami, FL           |
| #24595 | Ebenezer                          | Fort Washington, MD |
| #24598 | Varick Memorial                   | Hempstead, NY       |
| #24599 | First Combined Community          | Landover, MD        |
| #24600 | Turtle Mountain*                  | Belcourt, ND        |
| #24602 | Oasis Community Development*      | Providence, RI      |
| #24603 | UAW Local #1853                   | Spring Hill, TN     |
| #24604 | Comunidades*                      | Los Angeles, CA     |
| #24605 | Mt. Olive Baptist Church          | Arlington, TX       |

\* Denotes low-income designated FCU (LICU)

### 1996 12 New Charters

|        |                                 |                       |
|--------|---------------------------------|-----------------------|
| #24572 | South DeKalb Church             | Atlanta, GA           |
| #24573 | Washington County Community*    | Brenham, TX           |
| #24577 | Appalachian Development*        | Athens, OH            |
| #24578 | Toledo Urban*                   | Toledo, OH            |
| #24580 | HOCAC                           | Black River Falls, WI |
| #24581 | Wendell Phillips Community*     | Minneapolis           |
| #24582 | Unitarian Universalist          | Olympia, WA           |
| #24583 | NRS Community Development*      | Birmingham, AL        |
| #24588 | Enterprise Community*           | Las Vegas, NV         |
| #24589 | Neighborhood Trust*             | Manhattan, NY         |
| #24590 | Phillips County Self-Help*      | Helena, AK            |
| #24591 | New Hope Community Development* | Birmingham, AL        |

\* Denotes LICU

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## CU Development

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than NCUA's involvement permits, the regions are attempting to match small credit unions with larger credit unions wishing to provide nonmember deposits, training and other assistance.

### How You Can Help

If your credit union is interested in being a mentor for a new or small credit union, or if you are a small credit union and need help, please contact your NCUA regional office, or NCUA's Office of Community Development Credit Unions in Alexandria at 703-518-6610.

### Regional Workshops Planned

During October and November 1998, NCUA's Office of Community Development Credit Unions is sponsoring regional workshops covering salient topics for small credit unions at three sites. The cities being considered are Chicago, Miami and Dallas. Topics for discussion will include: field of membership issues, Year 2000 compliance, succession planning, lending policies, and management issues. Additional information and registration forms will be mailed to all small credit unions.

## ABOUT INVESTMENTS

# Treasury Makes It Easier For Credit Unions To Buy Direct

It is now easier for small credit unions and individual investors to buy and sell Treasury bills, notes and bonds thanks to a number of changes the Treasury Department recently initiated through its Treasury Direct program.



Treasury Direct allows institutional and individual investors to purchase securities directly from the government without going through a broker/dealer and paying a commission.

The government believes the new changes will make the program more accessible to investors. Currently, about 825,000 small institutional and individual investors hold \$83 billion in treasuries purchased through the program.

Among the primary changes, effective immediately:

- Investors can pay for securities directly by authorizing the Treasury to debit their bank account. Until now, investors had to pay by cashier's check or certified check.
- Investors can reinvest maturing securities by

calling a toll-free telephone number (1-800-943-6864) that will handle calls from touch-tone telephones 24 hours a day, 365 days a year. Previously, reinvestment were handled by mail.

- Investors can now sell securities directly by mailing a form to the Chicago Federal Reserve Bank. The Chicago Fed will get three price quotes from dealers and accept the highest bid, charging a \$34 fee for each security sold. Under the old program, holders who wished to sell prior to maturity had to sell the securities through a bank or broker/dealer and pay a commission. Sales forms are available from the Federal Reserve Bank or any of its branch offices.

The minimum acceptable dollar amount for tender (application) for Treasury bills is \$10,000. Treasury notes with maturities of less than four years are sold at a minimum of \$5,000 in multiples of \$1,000.

The new forms and more information can be obtained from the Treasury's Bureau of Public Debt web site: [www.publicdebt.treas.gov](http://www.publicdebt.treas.gov) or by telephone at 202-874-400, from 9-4 Eastern time.

## Board Members Address CUNA Conference

Monday morning, February 23 Chairman Norman E. D'Amours encouraged conference participants to re-emphasize the role of volunteerism in today's credit union movement and he expressed concern about the results of unrestricted competition among credit unions. The Chairman asked participants to think about and discuss these issues.

Tuesday, Board Member Yolanda T. Wheat said that hard-working Americans rely on credit unions and need us to work together to keep credit union membership a real choice. She stressed prepar-

ing for Year 2000 and the need to keep up with technology.

Wednesday, Board Member Dennis Dollar used the analogy that the FFA does not fly planes to land his message. He said that safety and soundness is NCUA's mission, and the ins and outs of member service is the role of the market place.

Text or excerpts of each speech is available on the our web site at <http://www.ncua.gov/news/speeches/speeches.html>



February 25, 1998 — NCUA Board Member Yolanda Wheat spoke briefly with Speaker Newt Gingrich after he announced his decision to cosponsor HR1151, "The Credit Union Membership Access Act", at the CUNA Governmental Affairs Conference.



# Strategies For Addressing The Year 2000 Problem

The Year 2000 (Y2K) problem leaves little room for error. If not properly addressed, computer systems may stop operating or provide erroneous information. Therefore, it is essential that plans and actions for addressing Y2K take all aspects of operations into account. NCUA promotes a five-step approach for managing the Year 2000 problem. The five steps are: awareness, assessment, renovation, validation/testing, and implementation. The following describes each phase and lists aspects that, if overlooked, may result in corrupted data, inability to operate, or costly consequences.

## Awareness Phase

Management at all levels defines the Y2K problem, its impact, establishes a Y2K project team, and develops an overall action plan. Credit unions should expect the unexpected. Even for recently purchased hardware or software, management must ascertain that the equipment and programs are Year 2000 compliant. From this point forward, management should stop purchasing products that cannot process Y2K transactions.

Consider records retention and backup processes. During the awareness phase, management should have a clear understanding of their backup system and not overlook their records retention process. Do backup tapes use December 31, 1999, as a retention flag? If so, will these tapes allow recoveries on January 1, 2000? Will the systems process inquiries of prior transactions?

## Assessment Phase

Management assesses the size and complexity of the problem and details the magnitude of the efforts necessary to address Y2K issues. During this phase, management must identify all affected systems and interdependencies, prioritize corrective actions, set time frames, allocate resources, establish accountability, set procedures for monitoring and reporting the status of the Y2K action plan, and develop a comprehensive contingency plan.

A sound Y2K action plan must identify the earliest date for fixing or replacing hardware and software applications (critical event horizons). A critical factor of this phase is to determine when to fix a particular program or system. Will problems start before December 31, 1999? For some credit card companies, cards issued with an expiration year of 00 caused transactions to reject. In essence, computers regarded the 00 expiration date on these cards as 1900. When can credit unions expect their systems or programs to fail?

## Renovation Phase

The renovation phase addresses the conversion, replacement, or elimination of systems. This phase includes code enhancements, hardware and software upgrades, system replacements, and other associated changes.

During the renovation phase, credit unions should attend to their critical systems before renovating less critical or non-critical programs. Credit unions should prioritize and set realistic time frames for solving the Y2K problem. Whether a system is critical or non-critical should determine where it ranks in the renovation phase.

## Validation/Testing Phase

At this phase, credit unions validate and test the interactions between operating systems, utilities, applications, databases, and interfaces. Also, credit unions should test converted or replaced systems to uncover errors, validate Year 2000 compliance, and verify operational readiness.

During the testing phase, credit unions must validate external interfaces with their internal systems. Management will need to determine how data flows between their systems and other institutions. It is critical to plan for interfaces before the implementation step. Credit unions should coordinate testing as early as possible with those institutions with which they exchange data. Credit unions cannot wait until data arrives in an unreadable format.

## Implementation Phase

Once converted or replaced and subsequently tested, credit unions would then implement Y2K compliant applications and systems into the production environment. Implementation must be carefully coordinated to account for system interdependencies. Institutions must also consider parallel processing (running the old and converted systems concurrently) to ensure accuracy and reduce risk.

The heart of the implementation phase is coordinating external interfaces. Large volumes of date-sensitive data flow electronically between credit unions and other institutions. A sound approach to this phase is for management to allocate sufficient time. Ideally, credit unions should implement their Y2K compliant systems as soon as possible. This action could help identify any unknown problems with the credit union's other interfaces.

## Conclusion

The five phases comprise a sound management tool for tracking credit unions' actions in addressing the Y2K problem. By now, credit unions should have completed the awareness and assessment phases. During 1998, credit unions must renovate and test their critical systems.

# Lets Keep The Central Liquidity Facility

by CLF President Herb Yolles

People have probably read with surprise and interest, and in some cases dismay, that the US Treasury study recommends Congress "discontinue" the CLF. ("Discontinue" would mean repeal Title III of the Federal Credit Union Act.)

After working with the Treasury's study team last year, I'm not surprised by this recommendation.

Treasury found little to criticize and little to change at NCUA or credit unions. The CLF is difficult for outsiders to understand and is an easy target when looking for something to "fix." In addition, the banking sector and banking regulators have difficulty with the unique aspects of the credit union system. The CLF is one of those unique aspects. Most importantly, with little use of the CLF in recent years, it is easy to label "unnecessary."

I believe that Treasury's recommendation is wrong and the CLF is as necessary today as when it was formed. The CLF was established by Congress in 1978 as a backup liquidity source or "lender of last resort" for credit unions. Congress recognized the unique nature of credit unions and agreed they need a backup liquidity lender for the same reasons that they need a separate federally-administered deposit insurance fund and a separate federal regulator.

The CLF has made over 1,400 emergency liquidity loans since opening for business in 1979. Most lending was accomplished through its agent-corporate credit union members.

Credit union liquidity has been strong in recent years. Consequently there has been little need for CLF funding. In fact, something would be wrong if the "lender of last resort" were active in the current financial environment.

The CLF fits well at NCUA, complimenting our roles as deposit insurer and a credit union supervisor and regulator. When needed, a prime benefit to members is that the CLF is poised to act quickly because of its close ties to NCUA and the credit union system.

For example, during localized liquidity needs in 1994 and 1995 the CLF made emergency, short-term liquidity loans totaling nearly \$390 million to 53 credit unions. In addition, the CLF frequently acts as an early warning signal to the NCUSIF when other problems may be developing. More than one call to the CLF has enabled the NCUA to take early action and prevent larger problems.

Treasury recommends that larger credit unions turn to the Federal Reserve Discount Window, and that other credit unions turn to corporate credit unions or establish lines of credit with other financial institutions. Because of Federal Reserve requirements, about 42% of credit unions are ineligible to join the discount window. For credit unions that meet the FED's eligibility requirements and need liquidity, collateral is required along with evidence that alternate sources of liquidity are unavailable.

I question whether the FED or another banking institution would be able to respond as quickly as the CLF when faced with credit union liquidity needs.

Corporate credit unions offer many wholesale services to credit unions and are an excellent source of liquidity. But corporate credit unions have limited fund sources beyond the deposits and investments of their member credit unions. Consequently, corporate credit unions are subject to rapid liquidity swings and need a reliable source of emergency funding. Almost all corporate credit unions are CLF agent members. These agent members stand ready to act as a conduit of CLF liquidity loans should a liquidity drain occur.

The Treasury report admits that the CLF operates at minimal cost. In fact, it operates with one full-time staff member and is only part of my job as Director of Risk Management.

The CLF is an efficient, low-cost solution for backup liquidity that positions its credit union members to be self-sufficient in the financial community. Hopefully, this is one problem that won't be "fixed."

## Corporate Risk Rating Tested

NCUA announced January 23 that it is entering the testing phase in developing a new risk rating system for corporate credit unions. The new rating system, designated the Corporate Credit Union Risk Rating System (CCURRS), is expected to replace the current CAMEL rating system by May 1, 1998.

During the testing period, from Jan. 26 through March 31, examiners from NCUA's Office of Corporate Credit Unions will calculate a corporate's CCURRS rating along with the CAMEL rating. Both supervisory ratings will be disclosed to each corporate credit union that is examined or reviewed during this period.

Also during the testing period, comments and suggestions will be requested from corporate credit unions, state regulators, and NCUA staff. Once the testing is completed, the risk rating system will be revised as needed, and presented to the NCUA Board for final review and implementation.

### ABOUT INVESTMENTS

## Beware Brokered CDs

Is your credit union losing money by investing in certificates of deposit (CDs) based on misleading yield disclosures? Deposit brokers do not have to disclose the annual per-centage yield (APY) and instead may compute a return on some other basis. For example, they may quote a simple interest rate that ignores compounding. For investments over one year, a simple interest yield can dramatically over-state the return compared to APY.

You should comparison shop for CDs using a bond equivalent yield. Have a trusted party determine the bond equivalent yield on the CD. Compare the yield on the best CD with a similar maturity Treasury. To see how the CD stacks up against Treasury securities, look in the paper for Treasury yields. If the bond equivalent yield of the CD is higher than that the Treasury security, you can then make an informed decision about whether the additional yield is enough to compensate you for the lower liquidity of the CD.

# GPRA Performance Plan Filed With Congress

NCUA sent its first Annual Performance Plan to Congress February 2, 1998. Outlining the performance goals for NCUA's major programs and activities, the performance plan is designed to establish connections between the long-term strategic goals contained in NCUA's Strategic Plan and the day-to-day activities of NCUA management and staff.

This plan is a requirement of the Government Performance and Results Act (GPRA) that Congress adopted in 1993 to reduce cost and improve the performance of the federal government. Specifically, the Annual Performance Plan provides Congress and the public with the —

- Annual performance goals for NCUA's major programs and activities;
- Measures NCUA will use to gauge performance;
- Means and strategies needed to meet performance goals; and
- Procedures used to verify and validate performance information.

GPRA establishes a link between NCUA's budget and its performance

planning process by requiring that performance goals and measures be linked to program activities in NCUA's budget. The Annual Performance Plan systematically provides information on the results to be achieved for a proposed level of resources. Plus, it leads to improved program management and ensures the Congress and public is informed of policy decisions.

GPRA encourages interagency cooperation when strategic goals are related, (crosscutting). In line with this "crosscutting" initiative, NCUA is taking part in an interagency working group that brings together federal financial regulatory agencies to cooperate and achieve some consistency, where appropriate. The working group has several subcommittees. They are:

- Outreach includes: *consumer complaints, public awareness, community affairs, etc.*
- Examination includes: *examination program, Y2K, etc*
- Budget/Planning Linkage
- Annual Performance Plan.

## Layne Bumgardner Moves to Headquarters

The NCUA Board temporarily reassigned Region I Director Layne Bumgardner as the Director of Strategic Planning in Alexandria responsible for accomplishing a smooth Year 2000 conversion, long range planning, and an evaluation of the agency's structure.

Effective March 8, Layne Bumgardner will serve in Alexandria for up to 18 months. Long-standing Region I ARD Anthony LaCreta will temporarily be the acting Region I director.

"Layne Bumgardner has the depth of experience, negotiation skills, and calm resolve this job demands," Chairman Norman E. D'Amours said during the selection process. "He is a creative thinker and possesses a valuable combination of management, executive and technical skills. Simply put, I believe he is the best person for this complex job and we welcome him to headquarters."

Mr. Bumgardner has been with NCUA for 30 years. The South Dakota native began his NCUA career as an examiner in Toledo, Ohio, in 1967. At NCUA, he has worked in various offices — data processing, resource management, developing state credit union insurance review programs, examiner training, regulatory development and management development. Immediately before becoming the Region I director in 1990, Bumgardner was deputy executive director of NCUA in headquarters.

# NCUA News

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